

Message Text

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11

ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07

L-03 NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15

AID-05 COME-00 EB-07 FRB-01 TRSE-00 XMB-04 OPIC-06

CIEP-02 LAB-04 SIL-01 OMB-01 STR-04 CEA-01 AGR-10

SAJ-01 /125 W

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R 131018Z JUN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1922

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION OECD PARIS

USMISSION EC BRUSSELS

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, EFIN, UK

SUBJECT: ECONOMIC FORECASTS; NIESR FORECASTS UK ECONOMY

TO CONTINUE PRESENT TRENDS OF RISING UNEMPLOY-

MENT AND HIGH INFLATION; CALLS FOR NEW INCOMES

POLICY

BEGIN SUMMARY: THE PRESTIGIOUS NATIONAL INSTITUTE FOR
ECONOMIC AND SOCIAL RESEARCH (NIESR) IN ITS QUARTERLY FORE

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CAST, PUBLICATION OF WHICH WAS DELAYED FOR A MONTH BECAUSE

OF A PRINTERS UNION DISPUTE, ESTIMATES LOW GROWTH, MOUNTING UNEMPLOYMENT AND CONTINUED HIGH INFLATION IN THE U.K. THROUGH THE REST OF 1975. THE NIESR FORECASTS AN UPTURN IN ACTIVITY AND A DECLINE IN INFLATION IN 1976. THE INSTITUTE, HOWEVER, PROFESSES GREAT UNCERTAINTY ABOUT ITS INFLATION FORECAST, AND IT CALLS FOR A REVISED AND STRENGTHENED INCOMES POLICY AS THE ONLY SOLUTION TO BRITISH INFLATIONARY PRESSURES. END SUMMARY.

1. NIESR ESTIMATES GDP GROWTH IN 1975 OVER 1974 AT 1.6 PERCENT AND FORESEES THE 1976/1975 GROWTH RATE AS 2.6 PERCENT. THE 1975 FOURTH QUARTER OVER 1974 FOURTH QUARTER ESTIMATE OF NIESR FOR GDP GROWTH IS 0.6 PERCENT. THE ESTIMATE FOR 1976 IV/1975 IV IS 2.7 PERCENT, INDICATING A PICKUP IN 1976 AND ACCELERATION OF GROWTH THROUGH THE YEAR

2. THE MAIN STIMULI TO ECONOMIC ACTIVITY IN BOTH YEARS WILL BE PUBLIC EXPENDITURE AND EXPORTS, ACCORDING TO THE NIESR FORECAST. THE INSTITUTE SEES PUBLIC CONSUMPTION EXPANDING BY 4.8 PERCENT IN 1975/1974 AND 3.3 PERCENT IN 1976/1975. THE RESPECTIVE FOURTH QUARTER RATES FOR THESE 2 YEARS ARE 4.3 PERCENT AND 2.2 PERCENT. THE LATTER FIGURE INDICATES A BELIEF BY THE INSTITUTE THAT PUBLIC EXPENDITURE WILL BEGIN TO SLOW DURING 1976 AS A RESULT OF THE CUTS PROMISED IN THE APRIL 15, 1975 BUDGET.

3. NIESR SEES EXPORT VOLUME EXPANDING BY 1.7 PERCENT IN 1975/1974 AND 3.5 PERCENT IN 1976/1975. REFLECTING THE EXPECTED UPTURN IN THE ECONOMIES OF OTHER COUNTRIES, THE INSTITUTE FORECASTS THAT THE RATE OF EXPORT EXPANSION WILL SPEED UP AS 1976 PROGRESSES.

4. THE FORECAST IS THAT OTHER COMPONENTS OF DEMAND ARE WEAK. CONSUMER EXPENDITURE IS FORECAST TO RISE BY 2.2 PERCENT THIS YEAR OVER LAST AND 0.9 PERCENT IN 1976/1975. THE FOURTH QUARTER OVER FOURTH QUARTER ESTIMATES INDICATE, HOWEVER, A WEAKENING OF CONSUMER EXPENDITURE THROUGH BOTH YEARS WITH FIGURES OF 0.9 AND 0.6 RESPECTIVELY. INVESTMENT IS SEEN DECLINING AT AN ACCELERATING RATE THROUGH 1975 BUT PICKING UP SLIGHTLY IN 1976. THERE HAS BEEN A UNCLASSIFIED

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LARGE INVENTORY LIQUIDATION IN THE FIRST QUARTER OF THIS YEAR AND THIS IS ESTIMATED TO CONTINUE IN THE SECOND QUARTER AT A SOMEWHAT REDUCED RATE. NIESR SEES A SMALL INVENTORY DECUMULATION THROUGH THE THIRD AND FOURTH QUARTERS OF 1975 AND INTO THE FIRST QUARTER OF 1976.

5. THE FALL IN CONSUMPTION EXPENDITURE IS BASED ON THE NIESR ESTIMATE OF A FALL IN REAL PERSONAL DISPOSABLE IN-
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COME IN BOTH 1975 AND 1976. NIESR FORESEES CONSUMER PRICES AS RISING BY 20.7 PERCENT IN 1975/1974 AND BY 17.5 PERCENT IN 1976/1975. THE FOURTH QUARTER FIGURES FOR CONSUMER PRICE RISES ARE 21.9 PERCENT AND 16.3 PERCENT RESPECTIVELY.

6. ON BALANCE OF PAYMENTS, THE INSTITUTE FORECASTS VISIBLE DEFICITS RUNNING AT AROUND 4 BILLION POUNDS FOR BOTH 1975 AND 1976 WITH CURRENT ACCOUNT DEFICITS IN BOTH YEARS OF ABOUT 2.6 BILLION POUNDS.

7. THE INSTITUTE STATES IN ITS APPRAISAL OF THE PRESENT SITUATION THAT THE SOCIAL CONTRACT, WHICH IT RECOMMENDED BE GIVEN A TRIAL PERIOD IN ITS MAY 1974 BULLETIN, HAS BEEN SHOWN TO BE THREADBARE AS AN INCOMES POLICY. NIESR CALLS FOR A STRENGTHENED INCOMES POLICY WHICH WOULD HAVE WAGE INCREASES FOLLOW PRICES, ON AN ANNUAL BASIS, BUT TARGETED AT LESS THAN THE ANNUAL PRICE INCREASE. THIS, THE INSTITUTE BELIEVES, IS THE ONLY WAY IN WHICH THE INFLATIONARY PRESSURES CAN BE MITIGATED.

8. AIRGRAM WITH TABLES TO FOLLOW.

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